Majority of asset managers remain bullish on global growth in 2012

Elevated investment risks and global financial turmoil expected to persist this year, but those challenges also provide expansion opportunities for Canadian firms willing and able to expand

By Richard Chu

Politics in the U.S. and Europe will continue to generate uncertainty in 2012 that could stall any return of global business confidence and economic growth.

That's according to a number of global portfolio managers *Business in Vancouver* has interviewed in recent weeks.

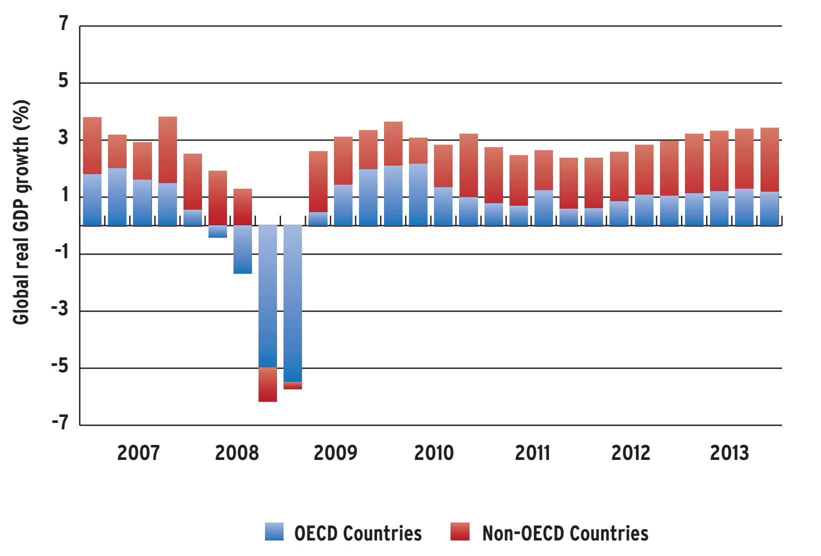
"What surprises me is the inability of politicians to get their act together," said **Stephen Way**, senior vice-president and portfolio manager for **AGF Investments Inc.**, who was in Vancouver recently visiting clients. "This surprises me more than the U.S. being downgraded."

David Schaffner, president and CEO of Vancouver-based **Leith Wheeler Investment Counsel Ltd.** agreed.

"Part of the problem is on the political side of things in Europe and the U.S. They are causing a lot of uncertainty and risk the more they haggle over their debt problems and delay the inevitable."

Speaking after the **Canadian Pension & Benefits Institute**'s annual investment outlook event, Schaffner noted that companies with strong balance sheets are still "rightly cautious" that the sovereign debt crisis could worsen or cause a further economic slowdown.

Most future global economic growth will continue to originate in non-OECD countries



SOURCE: OECD

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> – Stephen Way, senior vice-president, AGF Investments

He said he would not be surprised if the issue would create market turmoil again later this year.

Questions over the state of various U.S. corporate tax policies and incentives will also further dampen corporate enthusiasm to invest in their businesses in the coming year, said **Peter Marber, HSBC Asset Management**'s chief business strategist of emerging markets for the Americas.

Speaking after the **Vancouver Board of Trade**'s annual economic outlook conference, Marber noted that trillions of dollars in corporate cash will likely remain idle until after the 2012 presidential election, which will create a further drag on U.S. economic growth.

Way added that these politically generated headwinds will likely contribute to a recession in parts of Europe.

He predicted that the peripheral Eurozone countries will fall into recession, while core countries like France and Germany will remain "on either side of zero" GDP growth. He said

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> – Peter Marber, chief business strategist, HSBC Asset Management

the U.S. economy will remain positive this year.

Despite dangers to the global economy, all three asset managers expected that corporate earnings would continue to grow overall, albeit at a slower pace.

Much of the world's economic growth will continue to be generated from the developing world, led by key emerging markets like China, India, Russia and Brazil.

A November **OECD** report forecast China's economy to grow 8.5% this year, followed by India (7.2%), Russia (4.1%) and Brazil (3.2%).

Global challenges creating Canadian expansion opportunities

But global economic uncertainty will also create opportunities for Canadian companies eyeing growth opportunities.

Given that organic revenue growth and product development spending is likely to remain stagnant in a low-growth environment, Way said mergers and acquisitions are likely to become a key generator of corporate growth in 2012.

"If you're a corporation with strong balance sheets and cash available, then M&A makes a lot of sense. Your cost of capital is lower than it has been in a long time," said Way.

Marber noted that U.S. and Canadian companies have an "enormous gift from their governments" with interest rates remaining near historical lows.

"The cost of borrowing has never been lower. It's an incredibly interesting time for companies to develop long-term plans."

Schaffner said the next couple of years could also be a key opportunity for companies and investors. He noted a historical trend that suggests equity markets have posted substantial recoveries five years after every major financial crisis over the past 25 years.

"The encouraging thing is that returns are positive and higher generally two to three years after the crisis," said Schaffner.

"But a lesson is, it's a choppy path. I think this year will be an OK year, but the road is still going to be pretty rough.

"A lot of companies are doing the practical thing of keeping more cash on hand so they can get through a risky environment.

"But if you eliminate that risk, businesses will get more comfortable and hopefully deploy its cash toward productive things that boost the economy." ■

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